Stock Market Terms

Accounting Value or Fair Market Value- The Fair Market Value or Accounting value of a Company is measured by adding up the Assets, including Good Will, and subtracting the Liabilities. The Fair Market Value often does not perfectly align with the market capitalization.

Annual Meeting: At the annual meeting the Board of Directors is elected. Major matters such as mergers or large acquisitions are also voted upon. The Board of Directors elects a Chairman of the Board and the Board also hires the day to day management.

Assets- Assets are items that add value to a business. They often include physical assets, such as land, building, machinery and patents. Many of the Assets can have readily available money values. Some, such as Good Will, are not easily valued.

Bear Market- Stock prices in general are on the decline, analysts often deem a market to be “bear” when the Dow Jones or Standard and Poors 500 declines 10% from its most recent high

Bond- Corporations can gain money by either “capitalizing” which means selling new shares of stock or by borrowing money. Corporations often issue bonds, which individuals and institutions invest in. The bond is a loan by the indiv./institution to the Corporation. The corporation must repay the loan with interest. If a company raises $ through shares of stock they don’t have to repay it, but the new shares diminish the proportionate interest of the other shareholders.

Bull Market- Stock prices in general are rising

Chairman of the Board- Often the largest shareholder, sometimes the Chairman is also the CEO. Runs the board meetings and has great influence over major decisions of the company, including selecting the CEO, CFO and CIO.

Chief Executive Officer or President- Runs the day to day operations of the company, full time job. Hires lower level staff.

Chief Financial Officer- Oversees the finances of the Corporation, like the CEO this is a full time job

Chief Intelligence Officer (CIO)- Oversees the companies technology, like the CEO and CFO, this is a full time position.

Corporation- Business Organization licensed to conduct business by a State within the United States. What makes it special is that unlike other forms of business ownership who owns the business and who runs the business can be different. Additionally owners of the business are not personally liable for monies owed by the Corporation. Example: If someone drives my car and gets in an accident the injured person can sue me and get not only my car but my house to, if I own stock in Hertz Rentals and someone who rents the car causes an accident the only loss I can sustain is that the value of the stock I own goes down in value, all my personal assets are still safe.

MOST CORPORATIONS ARE NOT PUBLIC CORPORATIONS- ONLY PUBLIC CORPORATIONS HAVE SHARES THAT CAN BE BOUGHT AND SOLD BY ANYONE.

Private Corporation (sometimes called “closely-held”)- A Corporation that restricts ownership of its shares. These shares are not sold on a Stock Exchange. Example, Goya Foods, Inc., is not sold on any stock market though it is a corporation. The corporation’s stockholders can set rules on who they want to allow to buy stock in the corporation, for instance they may want to limit it to only their own family. A few years after Apple Computer became a publicly traded corporation the board of directors fired Steven Jobs, the person who started the corporation, he still owned stock in the corporation but he was no longer involved in running it.

Commission- Individuals must buy stocks through a company that has a seat on the stock exchange. The company will charge the buyer a fee for that service. The fee is often based on the stock value. **Example**, I want to buy 100 shares of General Electric (GE) so I contact Charles Schwab (stockbroker) and they complete the transaction. The sale costs 100 shares time the stock price $33.97 which is $3397.00 plus a commission of approximately $100.00

Conglomerate- Corporation that has a number of different business, in some cases the businesses are related in others they aren’t. Tyco Industries is a conglomerate they own a variety of different companies, when you purchase stock in Tyco you are buying stock in a number of different businesses. Federated Department Stores owns a variety of department stores including Abraham and Strauss, The Limited and Macy’s, it is also a conglomerate.

Dividends- Corporations can elect to reinvest their profits and/or distribute them. When they distribute them to their shareholders it is called a “dividend” payment. Many major companies do this regularly regardless of their “profitability”. If a company states that it gives a dividend of $2.00 per year per share and you own a share of the stock at the end of each quarter of one year you will get a check for $.50 which will after one year equal $2.00. Dividends are often published as a “dividend rate”. The dividend rate is the dividend divided by the stock price. If the price of the stock is $100.00 and the dividend is $2.00 the dividend rate is 2%, if the price of the stock rises to $200.00 the dividend rate goes down to 1%. Stocks that provide dividends usually are less risky than other stocks meaning they tend to go up or down less than other companies stock, however many people like to invest in them since they at least can count on getting some money, the dividend.

Dow Jones- Publishing company (includes The Wall Street Journal), the company devised an index to determine how the stock market is doing. The index includes 30 “bellweather” corporations that are representative of the US Economy. i

Earnings- Earnings are the amount of money a corporation makes during a given period. Earnings are determined by the following formula, Revenue (money coming in) less Expenditures/Costs (money going out). General Electric's Earnings for 2004-2005 was just over $16,595,000,000.

Firm- another name for a company or corporation

Fiscal Year- Fiscal Year refers to a 365-day period that may or may not begin on January 1st and end December 31. Many companies have fiscal years that begin July 1 and end June 30. The term fiscal refers to financial.

Good Will- Good Will is the value of intangible/non-physical assets such as the name and reputation of a company. Often much of the value of a company lies in the value of the trademark. Wendy's witnessed a huge drop in value after there was a report of a severed finger found in its chili. Despite the fact that the incident turned out to be untrue it still damaged the "good will" value of the company.

Industry- a Set of companies (firms) that are in a related business. Example: the automotive industry includes, Ford, GM, Daimler-Chrysler, Toyota and Nissan, the Computer Industry includes, Apple, Gateway, Dell and HP.

Insider Trader- Some individuals, such as corporate officials,

receive information regarding their own companies before the general public, as a result they can buy or sell stock before everyone else knows good or bad information and thereby make a substantial profit. To ensure this doesn't occur the SEC and US Department of Justice can prosecute individuals who illegally take advantage of such information.

Liabilities- Costs and expenses of the company. Some costs are well known and easily identifiable, such as employee costs, other costs such as energy may fluctuate, and some costs such as lawsuits are very speculative. Merck, a drug manufacturer, recently lost a lawsuit which may cost it over $250 million, as a result the stock went significantly down.

Market Capitalization- One way of valuing a Corporation is to multiply the share/stock price times the number of outstanding shares. EXAMPLE- If GE has issued 10 Billion Shares of stock and each share of stock is valued at 33.97 than the Market Capitalization of GE is $339.7 Billion. Market Capitalization is one of several ways to value a company.

P/E ratio (Stock Price/Earnings Ratio)- Many stock analysts buy/sell stocks based on the stocks price earnings ratio. The price is the stock price. Earnings, are **earnings per share**. EXAMPLE- on August 23, 2005 General Electric sold for $33.97 per share. Its earnings per share is $1.65 per share. Therefore the PE ratio is $33.97/1.65, or approximately 20.6. Historically P/E ratios over 25 were considered too high. Some new companies have very high P/E ratio or none because they are showing losses not earnings. For several years Amazon.com had a no P/E ratio yet was a popular stock pick. Likewise Google has a P/E ratio that's over 80 yet is also quite popular.

Portfolio- a list of the various investments of an investor. Generally the larger the list (# of investments) the less risk carried by the investor that the investments will fall in value, similarly this also will mean that the investor will stand less of a chance of getting a big boost in the value of his/her investments. A prudent investor chooses stocks from a variety of different industries. Since the stock market is a relatively risky investment to begin with, older people often put some of their money in stock but not all.

Shares/Stock- Ownership of the Corporation is represented by shares in the Company. A Corporation can authorize as many or as few Shares as it wants. Large Corporations such as General Electric have literally billions of shares.

Share or Stock Certificate- Once shares are purchased, the Corporation lists the owner of the shares on a registry together with the number of shares held by the person. The owner than receives a document which states his/her name and the number of shares they hold in the Corporation.

Standard and Poors 500- the Dow Jones is an index of 30 stocks, Standard and Poors is an indexof 500 stocks that are representative of the US Economy.

Stock Market- a Stock Market is an auction site (virtual or real) where Public Corporation stocks are bought and sold. Examples include the New York Stock Exchange (NYSE) and the NASDAQ

Stock Price- Stocks go up and down in value every minute of every day, the stock price is determined by how many people want to buy at a certain price and how many are willing to sell at a certain price. The most expensive stock on the stock market is Berkshire Hathaway at well over $80,000 per share, in contrast other companies sell for literally pennies. Some companies issue lots of shares of stock, others very few, if there are few shares, each share then represents a greater portion of the corporation.

Stock split- When the price of a stock rises high enough some companies choose to double or even triple the number of share by declaring that everyone who owns a share, now owns twice (or thrice) the number of shares they previously owned. Sometimes but rarely a company does what is called a reverse split when your number of shares is halved.

Securities and Exchange Commission (SEC)- This is a Federal (US Govt.) agency that watches over the stock market to ensure that its' a level playing field. The Commission tries to ensure that companies properly report information to the public so that the public can make informed decisions on what stocks to buy and sell.

Stock (ticker) symbol- All Corporations listed on the stock exchanges can be found by searching for the one to four letter symbol that is identified with the stock. Most stocks on the NYSE are 3 letters, while most on the NASDAQ are four. Example AAPL is Apple computer which is listed on the NYSE.

Stockholder/Shareholder- Stock or Shareholder (owner) is the record owner of a share of stock. The Shareholder is an owner of the company and has the right to vote at the companies shareholders meeting (once per year). The number of votes the shareholder gets is based upon the number of shares they own. Since some companies issue BILLIONS of shares of stock, any individual shareholder's votes becomes quite insignificant. Today, pension funds tend to be the biggest share holders and therefore only they have a significant impact on the voting.

Sub-S Corporation- Corporation that gets certain tax advantages, it must be of relative small size and not employ too many people. The Internal Revenue Service details the specific requirements.

Transparency- The ability of investors to see and understand all issues pertaining to a company, especially those that may negatively affect the firm. The opposite of transparency is “opaqueness”.

Volume- The number of shares bought/sold in a given time period. A change in volume may indicate that interest in the stock has suddenly changed.